

ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

2011 OCT 11 P 3:05

COMMISSIONERS

GARY PIERCE, Chairman
PAUL NEWMAN
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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM WATER DISTRICT AND ITS
SUN CITY WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

Arizona Corporation Commission

DOCKETED

OCT 11 2011

DOCKETED BY

[Signature]

SURREBUTTAL TESTIMONY OF DAN L. NEIDLINGER

ANTHEM/AQUA FRIA WASTEWATER DISTRICT DECONSOLIDATION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive,
Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm
specializing in utility rate economics.

1 **Q2. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS MATTER?**

2 A2. Yes, I did.

3
4 **Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

5 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem
6 has intervened in this proceeding on behalf of over 8,800 of its residents and commercial
7 entities that are water and wastewater customers of Arizona-American Water Company
8 ("AAWC" or "Company").
9

10 **Q4. WHAT IS THE PURPOSE OF THIS ADDITIONAL TESTIMONY?**

11 A4. My testimony addresses certain issues raised by intervenors opposed to
12 deconsolidation of the Anthem and Agua Fria wastewater districts, namely DMB White
13 Tank LLC ("White Tank"), the Verrado Community Association ("Verrado"), Russell
14 Ranch Homeowners' Association ("Russell Ranch") and Corte Bella Country Club
15 Association ("Corte Bella"). I also have comments on the direct testimonies of the ACC
16 Staff and RUCO and the rebuttal testimony of the Company.
17

18 **Q5. WHAT ARE THE POSITIONS OF RUCO, STAFF, AND THE COMPANY**
19 **WITH RESPECT TO DECONSOLIDATION?**

20 A5. RUCO supports deconsolidation and my proposed revenue transition plan. To date,
21 the testimonies by the Company and Staff are noncommittal on deconsolidation – neither
22 supporting nor objecting to deconsolidation of the Anthem and Agua Fria wastewater
23 districts.

24 Anthem served certain data requests, attached hereto as Exhibit A, upon Staff in an effort to
25 determine Staff's previous positions on the consolidation and deconsolidation of the
26 Anthem and Agua Fria wastewater districts, if any. Staff's responses to those data requests
27 indicate that Staff has never taken a position on the consolidation or deconsolidation of the
28 Anthem and Agua Fria wastewater districts and that Staff has never undertaken any sort of

1 analysis to address the question now before the Commission as to whether the Anthem and
2 Agua Fria wastewater districts should be consolidated for ratemaking purposes.

3
4 **Q6. DO THE DIRECT TESTIMONIES SPONSORED BY WHITE TANK,**
5 **VERRADO, RUSSELL RANCH AND CORTE BELLA INCORPORATE SIMILAR**
6 **OBJECTIONS TO DECONSOLIDATION?**

7 A6. Yes. There are three common themes underlying the deconsolidation objections
8 raised by these intervenors. The first argument is that the proposed deconsolidation of the
9 Anthem/Agua Fria wastewater district is premature since the Commission will again
10 address Company-wide consolidation in a future rate case; and, thus it would be illogical to
11 deconsolidate only to again consolidate at some future point in time. Second, they assert
12 that Anthem's support for deconsolidation is inconsistent with testimony, proffered by me,
13 in support of consolidation when that issue was before the Commission in an earlier phase
14 of this proceeding. Finally, these parties oppose deconsolidation since it would result in
15 rate shock to the Company's Agua Fria wastewater customers, assuming the resulting
16 change in rates was implemented in a single step or phase.

17
18 **Q7. WHAT ABOUT OPPOSING INTERVENORS' ARGUMENTS THAT THE**
19 **COMMISSION IS MOVING TOWARDS CONSOLIDATION AND,**
20 **ACCORDINGLY, DECONSOLIDATION OF THESE DISTRICTS AT THIS TIME**
21 **MAKES NO SENSE?**

22 A7. Company-wide consolidation of all of the Company's water and wastewater districts
23 is not, in my view, imminent. First, the Commission has already rejected consolidation in
24 an earlier phase of this proceeding, based, in part, on wide variances in cost of service
25 among the Company's districts for both water and wastewater service. These cost of
26 service variances remain today. Further, though the Company has been ordered to present
27 a Company-wide consolidation proposal in a future (but not necessarily the next) rate case,
28

1 that rate case may be years away and there is no guarantee that the Commission will
2 approve consolidation at that time.
3 Mr. Kent Simer, witness for Verrado, cites on Page 6 of his direct testimony the partial
4 consolidation of Arizona Water Company's water systems as an indication of the
5 Commission's intentions with respect to consolidation. However, the Commission made
6 that decision prior to rejecting consolidation in the instant proceeding. Further, the facts in
7 that rate case are markedly different than the facts in the instant proceeding. In that case,
8 partial consolidation was approved for water systems in close proximity that were
9 interconnected or systems with common water supply. The partial consolidation plan in
10 that case would be analogous to consolidating the Agua Fria wastewater district with the
11 Sun City West wastewater district, not the Anthem wastewater district. The Anthem and
12 Agua Fria service areas are not interconnected nor are they geographically close.
13 Additionally, the Company's response to Verrado Data Request 2.18 notes that the
14 Company already maintains the Anthem wastewater and Agua Fria wastewater districts as
15 "separate business units." That lack of any physical commonality along with the
16 Company's maintenance of separate business units for each of the service areas strongly
17 support deconsolidation in the instant proceeding.
18

19 **Q8. MR. SIMER'S TESTIMONY ALSO RAISES A CONCERN THAT**
20 **DECONSOLIDATION MAY LEAD TO DIFFERENT MANAGEMENT**
21 **PRACTICES BEING DEPLOYED THROUGHOUT THE COMPANY'S**
22 **DISTRICTS. WHAT IS YOUR RESPONSE?**

23 A8. During cross-examination of Mr. Thomas Broderick by Mr. Andrew Miller on June
24 3, 2010, Mr. Broderick indicated that except for ratemaking purposes, the Company
25 operates as a single company and that higher-level management operations are conducted at
26 the state and not the district level. As a result, it is doubtful that the deconsolidation of the
27 Anthem/Agua Fria wastewater district would result in different management practices for
28 each resulting district.

1 **Q9. OPPOSING INTERVENOR TESTIMONY PARROTED THE BENEFITS OF**
2 **CONSOLIDATION LISTED IN YOUR TESTIMONY DURING THE**
3 **CONSOLIDATION PHASE OF THIS PROCEEDING. WHAT IS YOUR**
4 **RESPONSE?**

5 A9. The benefits of Company-wide consolidation listed in my prior testimony remain
6 valid. However, it should be evident from a complete reading of the transcript of my
7 testimony in that phase of the proceeding that I was not in favor of Company-wide
8 consolidation unless significant reductions in operating costs could be achieved as a result
9 of consolidation. Thereafter, the Company indicated that operating costs would be only
10 slightly reduced through lower rate case expenses. As a consequence, a critical predicate to
11 my recommendation of consolidation was absent. I also testified that because I was not in
12 favor of any partial consolidation model, should the Commission reject Company-wide
13 consolidation it should also order the deconsolidation of the Anthem/Agua Fria wastewater
14 district, which is the very matter now before the Commission for consideration.
15 It should also be noted that none of the opposing intervenors in this case presented
16 testimony in the consolidation phase of this case supporting consolidation nor did they
17 support Anthem's efforts in the main phase of the case to reduce wastewater charges to
18 residential and commercial customers of the consolidated Anthem/Agua Fria wastewater
19 district.

20
21 **Q10. POTENTIAL RATE SHOCK IS A MAJOR ISSUE FOR THOSE**
22 **INTERVENORS OPPOSING DECONSOLIDATION. DO YOU AGREE?**

23 A10. Yes. My direct testimony deals with this issue through a proposed three-step revenue
24 transition plan to mitigate the impact of wastewater increases on Agua Fria customers.
25 RUCO supports this plan and the Company's rebuttal testimony provided additional
26 support. Accordingly, rate shock should not be used as a reason for not approving
27 deconsolidation at this time where deconsolidation is necessary to relieve the burden on
28

1 Anthem wastewater customers created by their subsidization of Agua Fria wastewater
2 customers.

3
4 **Q11. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF COMPANY**
5 **WITNESS SANDRA MURREY?**

6 A11. Yes. Ms. Murrey devotes four pages of her rebuttal testimony discussing City of
7 Phoenix rate matters. As discussed in my direct testimony, none of these matters have any
8 relevance to this proceeding. Staff, RUCO and Verrado have also concluded that
9 ratemaking changes to the wholesale contract with the City of Phoenix are outside the
10 scope of the current case.

11
12 **Q12. DO YOU AGREE WITH MS. MURREY'S REBUTTAL POSITION THAT**
13 **AGAIN RECOMMENDS POSTPONEMENT OF THE WINTER-AVERAGE**
14 **APPROACH FOR SETTING WASTEWATER RATES?**

15 A12. Yes. I continue to support Ms. Murrey's recommendation that the winter-average
16 rate design be postponed at least until the next rate case. A detailed discussion supporting
17 this conclusion was provided in my direct testimony. Intervenor Verrado and RUCO also
18 support or do not object to this postponement.

19
20 **Q13. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

21 A13. Yes, it does.
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23
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25
26
27
28

Exhibit A

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO
ANTHEM COMMUNITY COUNCIL'S
FIRST SET OF DATA REQUESTS
DOCKET NO. W-01303A-09-0343; WS-01303A-09-0343
JULY 11, 2011**

ANTHEM 1.2 Please provide copies of any and all Staff testimony and exhibits provided or produced with respect (a) to the initial establishment of the Anthem/Agua Fria Wastewater District, and (b) any subsequent reexamination of the continued consolidation of that District.

RESPONSE: There has been no Staff testimony or exhibits produced discussing the establishment of, or the reexamination of, a consolidated district. The District was first depicted as the Anthem/Agua Fria Wastewater District in a rate case filed by Arizona-American Water on November 22, 2002, Docket No. WS-01303A-02-0870.

RESPONDENT: Gerald Becker, Arizona Corporation Commission, 1200 West Washington, Phoenix, Arizona 85007

Exhibit A

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO
ANTHEM COMMUNITY COUNCIL'S
FIRST SET OF DATA REQUESTS
DOCKET NO. W-01303A-09-0343; WS-01303A-09-0343
JULY 11, 2011**

ANTHEM 1.3 Please provide an explanation of Staff's positions before the Arizona Corporation Commission regarding establishment of the Anthem/Agua Fria Wastewater District as a consolidated district.

RESPONSE: Staff has not taken a position on the consolidation of, or the deconsolidation of, the Anthem/Agua Fria Wastewater District. It is Staff's belief that the Anthem/Agua Fria Wastewater District as set forth in Docket No. WS-01303A-02-0870 represented an expansion of the Anthem Wastewater District, not a consolidation. Prior to that, Staff is not aware that an Agua Fria Wastewater District even existed.

RESPONDENT: Gerald Becker, Arizona Corporation Commission, 1200 West Washington, Phoenix, Arizona 85007

1 ORIGINAL AND THIRTEEN (13) COPIES
2 of the foregoing and attached exhibit
3 hand-delivered for filing this 11th day
4 of October, 2011 to:

5 Docket Control
6 Arizona Corporation Commission
7 1200 W. Washington Street
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9 COPY of the foregoing and attached exhibits
10 mailed or e-mailed this 11th day of October, 2011, to:

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